TOWN OF ARLINGTON

MASSACHUSETTS 02476

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DEPARTMENT OF PLANNING and
COMMUNITY DEVELOPMENT

TO: Brian Sullivan
Board of Selectmen

FROM: Kevin J. O'Brien, Director

SUBJ: Status of Symmes Project

DATE: June 15, 2007

Allow me to respond to your request to provide the Selectmen with more information about the Symmes project. In addition to this, in the next few days, I will try to respond to the comments that have been circulating in town. If I don't address all the concerns the Selectmen may have in this memo, perhaps my correcting the misinformation on the street will help. I will try to have a list of questions and answers at the Selectmen's meeting Monday night. In addition, I'd like you to know about a meeting that the Symmes Neighborhood Advisory Committee is having next Wednesday, 7:30 PM, at the Senior Center in the Central School building. They have asked representatives from E.A. Fish and JPI (who have confirmed that they will) to attend to answer the community's questions.

After receiving approval last October for the final plans for the residential portion of the Symmes Project, Symmes Redevelopment Associates (SRA) has been working toward closing on the sale of the property and beginning the construction. Our agreement with them placed time limits on how much time they could take to do this after the ARB gave them final approval. As a result, SRA has been paying all our carrying costs (interest, utilities, insurance, etc.) since January 24. The reason they didn't close on the property before that is that the residential condominium market had softened to the point that they were not able to get financing for a condo project without having very high pre-sales. In other words, they would have to sell a large percentage of the units before beginning construction and before getting a construction loan. Their investigation into the market last fall showed that people liked the project a lot, but were not willing to buy a unit that wouldn't be finished for two years and possibly be worth less when finished than what they paid for it.

SRA began to look for another way to build the project all at once. Their solution was to partner with a well established and well capitalized housing developer and package the project as a rental project. Financing was (and is) still available for rental projects because the markets travel in opposite directions: when people aren't buying, they need to rent and on the other hand, when sales prices meet people's satisfaction the rental market deflates. Today the project has to make sense to a lender as a rental in order for them to lend money. If the project is instead sold as condominiums, the lender is still satisfied, but they won't loan in the first place unless it can be shown that the project will be able to pay its bills as rental apartments. The Symmes Project can show that, but just barely, because the units are too large and too expensive to conform to the

rental economics. So the project can pay its bills, but not make money for the developer. The bank will get its money, but the developer who has also invested cash in the project will not make a satisfactory return.

This has been our understanding of the market reality as SRA, beginning in December or January, engaged in difficult negotiations with JPI (who presumably would soften the blow to SRA's finances if the project had to be rented for a few years) and while the ARB also engaged in difficult negotiations with SRA. The scenario was confirmed recently by an independent real estate audit that we are required to do and submit to DHCD (because it's an urban renewal project). The appraiser concluded that a rental project of the type contemplated could not make money and should not be pursued. The appraiser concluded further that residential condominiums were the highest and best use, but advised that the developer should wait a year to see if the market (and financing) returned. SRA believes, and I think the ARB has likewise concluded, that if they take the risk to build the entire project now (financed as a rental), they will be much more ready to respond to the returning condo market in a year or two. From the Town's perspective, of course, the sooner it is built, the sooner it generates tax revenue.

I believe you are well aware of the problem that the rental scenario posed for the Town. The value of the project as a rental is significantly less than as a condominium development. Funds we expected to receive from property tax would be significantly less and it would take the Town longer to pay off its debt. The amount of property tax was never part of our agreement with SRA, but price concessions that we had made in the past were based in part on our expectations of property tax revenue which would pay off the debt. Fortunately, some parts of our agreement with SRA were dependent upon the condominium structure that had been anticipated. This meant that SRA could not proceed with the rental scenario without changing our agreement. We thus had the opportunity to try to recoup some of the property tax loss. These negotiations proved to be very difficult as the margins between profit and loss, financing and no financing became smaller.

The Redevelopment Board has drawn upon a broader group of experience in conducting these negotiations. The ARB, represented by Ed Tsoi, has joined with Charlie Foskett from the Symmes Advisory Committee and Finance Committee, The Town Manager, Town Counsel and Planning Director and is represented by counsel from Foley Hoag. In the end, we were able to negotiate a better profit sharing arrangement and a lump sum payment at closing of $600,000 to help defray the loss of tax revenue. We also changed the three land payments over three years to the present value of those payments, $6.24 million, to be paid at closing.

In conducting the negotiations, we ran numerous financial models to determine the impact upon the Town and our ability to keep the project off the tax roles. I enclose an abbreviated version of several models to illustrate how various scenarios were evaluated. The three I enclose show the "condo" model using the previous version of the LDA. This shows what the return to the Town would be if the ARB had not voted to change the LDA to allow rentals. This was the starting point - the agreement in existence as we were negotiating. It acknowledges that in today's market, the condos could not be built as quickly as originally envisioned. It supposes that even though the project would have to be built piecemeal, that they all could be built within five years. The second model titled "rental w/ conversion" shows the situation if the units were rented for a couple of years and converted to condos over a couple more years. The third model, "rental", shows the worst case. It shows what happens if the project were built and operated as a rental and

never converted to condo. While we don't believe this is a likely alternative, we had to use it to evaluate an agreement that would allow rental without requiring conversion to condo. SRA understandably rejected any control that would compel them to behave in a manner that might contradict the market. I believe the most likely scenarios occur within the range of the "condo" and "condo w/ conversion" models.

The models are complex, so let me explain the assumptions behind them and I will try to highlight the significant numbers to look at in each. In order to make the models comparable, we assumed a similar financing scheme for all. The actual financing which will be decided by the Selectmen and Treasurer may be different depending on the scenario that becomes real, but for comparability all models use the same scheme. It is assumed that any land payment must be used to immediately pay down outstanding debt (we're questioning Bond Counsel about this, but so far that is his advice). We must stop issuing bond anticipation notes in 2012 and bond the remaining debt. All models assume that the remaining debt will be financed at 6% interest with an equal annual payment over fifteen years ('til 2027) (the maximum allowed). In each model we pay down indebtedness as soon as funds are available (for comparability) but realize that the Selectmen and Treasurer may decide to do it differently.

The test is always to see if the project will pay its own way and stay off the tax role. In all the models we assume there will be no profit sharing, we assume the $300,000 environmental remediation fund that we have to put in escrow will be paid back to us at the end of construction and we assume that we will receive no money for the medical office site even though the agreement indicates we could receive up to $1.9 million. Zero is a more realistic figure and helps keep our model conservative.

The model shows a variety of payments and receipts down the left column and <u>fiscal</u> years across the top of the page. In each scenario, I have highlighted a few fields to focus the comparison.

Looking at the "condo" model, notice that there are three property payments over three years. This has an impact on the debt service because we don't pay off much debt at first and have to borrow more money just to keep up with our interest payments in the early years. Looking first at the payments, we receive $2.5 million plus $115,000 that is a payment in lieu of taxes for some of the period since we entered into the agreement with SRA in August of 2004. Next notice the outstanding BAN (or bond) balance. This is our total indebtedness that begins at $12.2 million in each model. Next we show any additional borrowing we need to do (within the $14 million authorization) to make our debt service obligations. Then we show what our required debt payment is each year.

Further down, you will see the property tax revenue which ramps up as the project is built. Where condos are involved there is the 1.25% transfer fee. I point this out because it is another source of revenue. Near the bottom I have marked the BAN (or bond) repayment. In this row you will see the pay-downs that we must make when we receive land payments and also pay-downs that we are able to make because we have excess revenue. Finally you see the ending balance for each fiscal year. Don't try combining the figures to come up with the balance, this is not a spreadsheet, but rather a chart drawn from a spreadsheet. The model is designed such that if the ending balance is positive, we are paying our bills and staying off the tax roll. Our additional borrowing and elective debt pay off decisions are governed by the ending balance.

One way to compare the scenarios is to look at the highlighted fields under years 2013 and 2015. The fields in 2013 show the debt service after the indebtedness is bonded. Below that the next highlighted field shows the property tax revenue at the same point. From this point onward, the debt payment stays the same (sticking with our model's assumptions) and property tax continues to grow. The difference between these two figures is a good indicator of how much money is available to be applied to the general fund. The figures in the column labeled "available after debt service" on the far right shows this amount in fy 2015. Depending on how the Treasurer and Selectmen have arranged the bonding, this figure also indicates how long it would take to pay off the debt. The figure highlighted under fy 2015 shows the total remaining indebtedness at that point.

Clearly, the scenario in which the project remains a rental is the worst case, but it does stay off the tax roll. The agreement we started with ("Condo") is certainly better. It leaves us with more indebtedness in 2015, but we are also in a much better position to pay off the debt at that time. This illustrates the fact that as soon as the project is complete and converted to condo, the debt can be repaid within a few years. The middle scenario, which we consider most likely, is clearly superior to the others because it is completed more quickly and starts generating tax revenue.

CC: Arlington Redevelopment Board
Steven Gilligan, Town Treasurer

Symmes Financial Evaluation

6/15/2007

Condo

	2008	2009	2010	2011	2012	2013	2014	2015	available after debt service
Property payments	2,500,000		1,420,000	2,830,000	BANs to Bonds				
PILOT	115,000								
Tax Loss Defrayment / DTR									
BAN Balance	10,400,000	11,100,000	10,280,000	7,880,000	7,880,000	7,541,453	6,532,594	**5,502,203**	
Add'l Borrowing	700,000	600,000	400,000						
Debt Service	366,000	666,000	702,000	640,800	472,800	**811,000**	811,000	811,000	676,264
Property Tax Revenue	39,891	184,754	466,622	372,203	320,616	**1,347,388**	1,415,599	1,487,264	
1.25% Transfer Fee		2,439	30,361	53,480	54,703	55,925	57,148	58,370	
BAN Repayment	2,500,000		1,420,000	2,800,000			650,000	650,000	
Ending Balance	99,000	38,225	64,988	187,785	45,288	73,688	21,146	37,971	

Rental w/ Conversion

	2008	2009	2010	2011	2012	2013	2014	2015	
Property payments	6,240,000								
PILOT	115,000				C O N V E	R S I O N			
Tax Loss Defrayment / DTR	650,000								
BAN Balance	5,960,000	6,310,000	6,610,000	6,310,000	6,010,000	5,451,794	4,478,095	**3,287,975**	
Add'l Borrowing		350,000	300,000						
Debt Service	366,000	357,600	378,600	396,600	378,600	**619,000**	619,000	619,600	890,370
Property Tax Revenue	38,891	153,709	240,606	646,905	786,026	**1,136,160**	1,437,211	1,509,970	
1.25% Transfer Fee					16,447	33,443	34,174	34,905	
BAN Repayment	6,240,000			300,000	300,000	300,000	700,000	900,000	
Ending Balance	49,000	44,094	57,401	47,958	23,646	56,639	63,071	22,937	

Rental

	2008	2009	2010	2011	2012	2013	2014	2015	
Property payments	6,240,000								
PILOT	115,000								
Tax Loss Defrayment / DTR	650,000								
BAN Balance	5,960,000	6,310,000	6,610,000	6,310,000	6,110,000	5,747,498	5,369,245	**4,974,297**	
Add'l Borrowing		350,000	300,000						
Debt Service	366,000	357,600	378,600	396,600	378,600	**629,000**	629,000	629,000	195,451
Property Tax Revenue	38,891	153,709	240,606	646,905	711,267	**747,274**	785,105	824,851	
1.25% Transfer Fee									
BAN Repayment	6,240,000			300,000	200,000	100,000	100,000	100,000	
Ending Balance	49,000	44,094	57,401	47,958	123,646	88,330	88,589	128,116	